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KAWKAWLIN METROPOLITAN DISTRICT KAWKAWLIN, MICHIGAN

FINANCIAL STATEMENTS JULY 31, 2004

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AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Kawkawlin Metropolitan District	County Bay
Audit Date 7/31/04	Opinion Date 10/11/04	Date Accountant Report Submitted to State: November 3, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

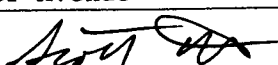
Certified Public Accountant (Firm Name) Weinlander Fitzhugh			
Street Address 1600 Center Avenue	City Bay City	State MI	ZIP 48708
Accountant Signature 			

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WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

October 11, 2004

Independent Auditors' Report

Board of Commissioners
Kawkawlin Metropolitan District
Kawkawlin, Michigan

We have audited the accompanying financial statements of the business-type activities and its major fund of the Kawkawlin Metropolitan District as of and for the year ended July 31, 2004, which collectively comprise the Kawkawlin Metropolitan District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and its major fund of the Kawkawlin Metropolitan District as of July 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

Board of Commissioners
Kawkawlin Metropolitan District
October 11, 2004
Page 2

As described in Note 1, the Kawkawlin Metropolitan District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as of August 1, 2003.

Required Supplemental Information

The management’s discussion and analysis as identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Weinlander Fitzhugh

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2004

The Kawkawlin Metropolitan District (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ending July 31, 2004. We encourage readers to consider the information presented here in conjunction with the District's financial statements, and notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$78,000.
- During the year "operating revenues" increased by \$34,000 while "operating expenses" increased by \$13,000.
- Service connections increased by \$42,500.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The business-type activity of the District is the water system.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2004

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Districts only fund is a proprietary fund.

Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its water system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the only major fund of the District.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements.

FINANCIAL ANALYSIS OF THE DEPARTMENT

The most common financial question posed to the District is "How did we do financially during the fiscal year?" The Statement of Net Assets and the Statement of Activities report information about the District's activities in a way that will help answer this question. The two statements report the net assets of the District and the change in them.

Net Assets

The statement of net assets provides the perspective of the District as a whole. Exhibit A provides a summary of the District's net assets as of July 31, 2004.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2004

Exhibit A

Assets

Current assets	\$ 136,666
Capital assets - net of accumulated depreciation	<u>245,665</u>
Total assets	<u>382,331</u>

Liabilities

Current liabilities	<u>18,018</u>
---------------------	---------------

Net Assets

Investment in capital assets	245,665
Unrestricted	<u>118,648</u>
Total net assets	<u><u>\$ 364,313</u></u>

Exhibit A focuses on the net assets of the District. The District's net assets were \$364,313 at July 31, 2004. Capital assets, net of related debt, totaling \$245,665 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$118,648 in unrestricted net assets of business-type activities represents the *accumulated* results of all past and current year's operations.

The results of this year's operations for the District as a whole are reported in the statement of activities (Exhibit B), which shows the changes in net assets for the year ended July 31, 2004. Since this is the first year the District has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2004

Exhibit B

Revenue

Program revenue:	
Charges for service	\$ 232,287
General revenue:	
Investment earnings	<u>318</u>
Total revenue	232,605

Function/Program Expenses

Water	<u>154,968</u>
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Increase in Net Assets	<u><u>\$ 77,637</u></u>
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While the Statement of Net Assets shows the change in financial position of assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes. As can be seen in Exhibit B above, the increase in charges for service in relation to service connections is a major factor in the increase in net assets in 2004. There was also an increase in Function/Program expenses in relation to a meter replacement program.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FUND

Proprietary fund. The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2004

Gross service charges	\$ 186,224
Cost of water	<u>74,537</u>
Gross profit	111,687
Operating revenue	46,063
Operating expenses	(80,431)
Nonoperating revenue	<u>318</u>
Change in net assets	<u><u>\$ 77,637</u></u>
Total net assets - end of year	<u><u>\$ 364,313</u></u>

Budgetary Highlights

The preparation of budgets is not required for proprietary funds.

Capital Assets

The District had \$245,665 (net of accumulated depreciation) invested in capital assets as of July 31, 2004. The investment in capital assets includes land, building, equipment and water distribution system.

	<u>2004</u>	<u>2003</u>
Land	\$ 2,000	\$ 2,000
Construction in progress	0	12,620
Buildings	11,713	11,713
Equipment	27,839	27,839
Distribution system	<u>373,005</u>	<u>218,350</u>
Total capital assets	414,557	272,522
Less accumulated depreciation	<u>168,892</u>	<u>162,810</u>
Net capital assets	<u><u>\$ 245,665</u></u>	<u><u>\$ 109,712</u></u>

KAWKAWLIN METROPOLITAN DISTRICT
Management's Discussion & Analysis
For the Year Ended July 31, 2004

Long-Term Debt

The District has no long-term debt outstanding at July 31, 2004.

(1) Depreciation expense has been allocated to water operations.

Factors Expected to have an Effect on Future Operations

We are not aware of any factors that will have a significant impact on future operations.

Requests For Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Richard Shaw
Kawkawlin Metropolitan District
PO Box 367
Kawkawlin, MI 48631

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Net Assets
July 31, 2004

	<u>Business-type Activities</u>
<u>Assets</u>	
Cash	\$ 66,974
Certificates of deposit	27,396
Accounts receivable	42,296
Capital assets less accumulated depreciation of \$168,892	<u>245,665</u>
Total assets	<u>382,331</u>
<u>Liabilities</u>	
Accounts payable	17,660
Accrued payroll taxes	<u>358</u>
Total liabilities	<u>18,018</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	245,665
Unrestricted	<u>118,648</u>
Total net assets	<u><u>\$ 364,313</u></u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Activities
For the Year Ended July 31, 2004

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Business-Type Activities</u>
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Business-type Activities					
Water	<u>\$ 154,968</u>	<u>\$ 232,287</u>	<u>\$ 0</u>	<u>\$ 0</u>	\$ 77,319
General revenues:					
Interest and investment earnings					<u>318</u>
			Change in net assets		<u>77,637</u>
			Net assets - beginning of year		<u>286,676</u>
			Net assets - end of year		<u>\$ 364,313</u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Net Assets
Proprietary Fund
July 31, 2004

	<u>Business-type Activities Enterprise Fund</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash	\$ 66,974
Certificates of deposit	27,396
Accounts receivable	<u>42,296</u>
Total Current Assets	<u>136,666</u>
<u>Property and Equipment - At Cost</u>	
Land	2,000
Building	11,713
Equipment	27,839
Distribution system	<u>373,005</u>
	414,557
Less allowance for depreciation	<u>(168,892)</u>
Net property and equipment	<u>245,665</u>
Total Assets	<u>382,331</u>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts payable	17,660
Accrued payroll taxes	<u>358</u>
Total liabilities	<u>18,018</u>
<u>NET ASSETS</u>	
Investment in capital assets - net of related debt	245,665
Unrestricted	<u>118,648</u>
Total net assets	<u>\$ 364,313</u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended July 31, 2004

	Business-type Activities Enterprise Fund
Gross service charges	\$ 186,224
Water cost	74,537
Gross profit	<u>111,687</u>
Operating revenues:	
Hydrant rental	3,563
Service connections	42,500
Total operating revenues	<u>46,063</u>
<u>Operating Expenses</u>	
Repairs and maintenance	12,471
Administrative wages	9,600
Billing charges	3,488
Meetings	4,925
Maintenance wages	7,913
Legal and accounting	5,860
Depreciation	6,082
Insurance	3,636
Payroll taxes	1,295
Office expense	1,071
Supplies and materials	21,838
Dues and licenses	1,160
Election expense	325
Utilities	416
Telephone and pager	351
Total operating expenses	<u>80,431</u>
Operating income	77,319
Nonoperating revenues:	
Interest income	<u>318</u>
Change in net assets	77,637
Net assets - beginning of year	<u>286,676</u>
Net assets - end of year	<u><u>\$ 364,313</u></u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended July 31, 2004

	Business-type Activities <u>Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 164,587
Cash payments to suppliers for goods and services	(124,250)
Cash payments to employees for services	(19,038)
Other operating income	<u>46,063</u>
Net cash provided by operating activities	<u>67,362</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	<u>(142,035)</u>
Net decrease in cash and cash equivalents	(74,673)
Cash and cash equivalents, at beginning of year	<u>141,647</u>
Cash and cash equivalents, at end of year	<u><u>\$ 66,974</u></u>

See accompanying notes to financial statements

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Kawkawlin Metropolitan District (District) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Kawkawlin Metropolitan District.

Reporting Entity

The Kawkawlin Metropolitan District was formed under Act 312 of the Public Acts for the year 1929, as amended. The District operates a water supply system. The District purchases water in bulk from the Bay County Department of Water and Sewer and resells it to customers within the District.

The District is governed by a Board of Commissioners. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which governmental organizations are a part of the District's reporting entity, and which organizations are legally separate component units of the District. The District has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate fund financial statements are provided for the major enterprise fund.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major proprietary funds:

The Water Fund accounts for activities of the water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water services. The water fund also recognizes the portion of tap fees intended to cover current costs (e.g., labor and material to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables – Accounts receivable consist of utility charges to the District's customers. No allowance for doubtful accounts has been included in these statements because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building	20 years
Equipment	5-15 years
Distribution system	30-50 years

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Accounting Change – Effective, August 1, 2003, the District implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the District's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Department's overall financial position and results of operations has been included.

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Statement 34 established standards for external financial reporting for all state and local governmental entities which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. Government-wide financial statements prepared using full accrual accounting for all of the District's activities have been provided. Statement 34 requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowing that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset component as the unspent proceeds.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

NOTE 2 – DEPOSITS AND INVESTMENTS

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

At year-end, the District's deposits were reported in the basic financial statements as follows:

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2004

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

	<u>Governmental Activities</u>
Deposits (checking and savings accounts, certificates of deposit)	<u>\$ 94,370</u>

The deposits of the District were reflected in the accounts of financial institutions at \$94,370, of which \$94,370 is covered by federal depository insurance.

NOTE 3 – CAPITAL ASSETS

Capital asset activity of the District for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 2,000	\$ 0	\$ 0	\$ 2,000
Construction in progress	12,620	0	(12,620)	0
Subtotal	<u>14,620</u>	<u>0</u>	<u>(12,620)</u>	<u>2,000</u>
Capital assets being depreciated:				
Building	11,713	0	0	11,713
Equipment	27,839	0	0	27,839
Distribution system	218,350	154,655	0	373,005
Subtotal	<u>257,902</u>	<u>154,655</u>	<u>0</u>	<u>412,557</u>
Less accumulated depreciation for:				
Building	11,713	0	0	11,713
Equipment	27,340	126	0	27,466
Distribution system	123,757	5,956	0	129,713
Subtotal	<u>162,810</u>	<u>6,082</u>	<u>0</u>	<u>168,892</u>
Net capital assets being depreciated	<u>95,092</u>	<u>148,573</u>	<u>0</u>	<u>243,665</u>
Net capital assets	<u>\$ 109,712</u>	<u>\$ 148,573</u>	<u>\$ (12,620)</u>	<u>\$ 245,665</u>

KAWKAWLIN METROPOLITAN DISTRICT
Notes to Financial Statements
For the Year Ended July 31, 2004

**NOTE 4 – RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

Operating income	\$ 77,319
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	6,082
Change in assets and liabilities	
Accounts receivable	(21,637)
Accounts payable	5,828
Accrued payroll	(400)
Accrued payroll taxes	<u>170</u>
Net cash provided by operating activities	<u>\$ 67,362</u>

NOTE 5 – RELATED PARTY TRANSACTIONS

The District purchased services for system replacement, repairs and maintenance and supplies in the amount of \$154,077 from a Company owned by two employees of the District.